

## INTERNATIONAL PERSPECTIVE

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This year will be one of significant policy events for US agriculture, both domestically and internationally. Congress is expected to pass a new farm bill to replace the 1996 Freedom to Farm Act and World Trade Organization (WTO) Members will engage in serious trade negotiations to reduce agricultural trade barriers. These two events will have a strong influence on US farm and trade policy for the rest of the decade. The linkage between US farm and trade programs and a new WTO agriculture agreement is clear: US programs to support producers and to expand exports must be consistent with WTO disciplines just as the US expects other WTO Members to meet their obligations.

### WTO Agriculture Negotiation

At the November 2001 WTO Ministerial Meeting in Doha, WTO Members made two major decisions:

1. To launch a broad trade negotiation—the Doha Development Agenda, to be completed by January 1, 2005; and,
2. To complete negotiation of the “modalities” of the agriculture agreement by March 31, 2003. Members are to submit comprehensive draft schedules of commitments based on the agreed modalities by the time of the 5<sup>th</sup> WTO Ministerial in mid-to-late 2003.

Modalities include all the key elements, or specifics, of a trade agreement, e.g. the Uruguay Round Agreement on Agriculture (URAA) has specifics for market access (minimum and overall average tariff reductions), export subsidies (reductions in volume and value), domestic support (reductions in trade-distorting support), special and differential treatment for developing countries (implementation period and reductions in tariffs).

WTO Members have a little over one year to complete this critical part of the agriculture negotiation. Members are expected to present proposals on modalities over the next several months and the WTO Secretariat may prepare a draft modalities paper later this fall.

The largest benefit of agriculture trade negotiations is expanded trade opportunities. The WTO agriculture negotiation can result in significant improvements in market access, but the negotiation, as all trade negotiations will be difficult. However, WTO Members have the advantage of the URAA framework—it is comprehensive with no exceptions and the modalities are in place. Within the framework of the URAA, Members can negotiate modifications of existing disciplines. They need not invest the time and energy as they did in the Uruguay Round.

### US Trade Programs

US agricultural trade expansion programs are dominated by export credits, which face the greatest potential for WTO disciplines that could limit their use. These programs must be as effective as possible while remaining consistent with WTO rules.

Export Credits. Export credit programs are nearly 75 percent of the total program level for US agricultural export programs (President's Budget for FY 2003--export credits, dairy export incentive program, market development programs, and foreign food aid). With export subsidy programs limited by WTO commitments and food aid constrained by budget resources and other factors, export credits are in effect, the only significant policy tool to increase US exports.

How to deal with export subsidies, including export credits, was one of the major issues during the Uruguay Round negotiations. The US was under enormous pressure from the Cairns Group and other agricultural exporting countries to accept disciplines on the use of export credit programs. The Cairns Group wanted export credits and credit guarantees to be treated as export subsidies and subject to the disciplines requiring reduction of such subsidies.

The United States successfully resisted this pressure. In the URAA, export credit programs are not specifically listed as export subsidies subject to the reduction commitments that are applied to other programs. Export credit programs were given a special status that exempted them from these reductions. In return, the US and other WTO Members agreed, "to work toward the development of internationally agreed disciplines to govern the provision of export credits, export credit guarantees or insurance programmes" and to apply those disciplines once negotiated (Article 10.2 URAA, Circumvention of Export Subsidy Commitments).

Article 10.2 does not specify a timetable for concluding discussions on disciplining export credits in agriculture nor does it specify that such credit programs need to be reduced, but rather "disciplined". Although not specified, the implicit assumption was that the discussion on agricultural export credits would take place in the Organization for Economic Cooperation and Development (OECD). The OECD export credit arrangement for industrial products sets guidelines for key credit provisions. It contains no enforcement mechanism, but since it is incorporated by reference into the WTO Agreement on Subsidies and Countervailing Measures, any country providing export credits or guarantees inconsistent with the OECD Arrangement would be subject to WTO challenge.

OECD Members discussed disciplines for agricultural export credit programs for over five years but could not reach agreement on the Chairman's Revised Draft Text. Although an OECD agreement on export credit disciplines would not eliminate the possibility of a WTO challenge, it would provide a legal basis for defending export credits provided in conformity with such an agreement. Now, however, export credits are being treated as export subsidies in the WTO agriculture negotiation and it remains to be seen as to how much their use will be constrained by the new WTO agriculture agreement.

Food Aid. US food aid programs accomplish two objectives: (1) provide humanitarian relief to citizens of poor countries; and (2) encourage exports and long-term market development for US agricultural products. Article 10.4 of URAA requires that "... (a) that the provision of international food aid is not tied directly or indirectly to commercial exports of agricultural products to recipient countries; (b) that international food aid transactions shall be carried out in accordance with the FAO "Principles of Surplus Disposal and Consultative Obligations", including, where appropriate, the system of Usual Marketing Requirements; and (c) that such aid shall be provided to the extent possible in fully grant form or on terms no less concessional than those provided for in Article IV of the Food Aid Convention 1986."

WTO Members criticize the US for using food aid programs in a manner inconsistent with URAA rules and therefore in circumvention of export subsidy disciplines. In particular, the major complaints

are that P.L. 480 Title I concessional sales are export subsidies, food aid should be provided only in grant form, and surplus food disposal activities, as under Section 416, are export subsidies. The President's Budget proposes changes in foreign food aid programs. Title I credit sales are reduced and Title II donations increased. In addition, the budget proposes no donations of commodities under Section 416(b) authority that rely on the purchase of surplus commodities by the Commodity Credit Corporation (CCC).

Market Promotion Programs. The Foreign Agricultural Service administers a number of programs that support the development, maintenance, and expansion of commercial export markets for U.S. agricultural commodities and products. Under the Market Access Program, CCC funds are used to reimburse participating organizations for a portion of the costs of carrying out overseas marketing and promotional activities, such as direct consumer promotions. The Foreign Market Development (Cooperator) Program provides cost-share assistance to nonprofit commodity and agricultural trade associations to support overseas market development activities that are designed to remove long-term impediments to increased U.S. trade. These programs are consistent with WTO rules for programs that promote agricultural products in global markets (URAA, Annex 2, Paragraph 2 (f)).

## US Farm Bill

The US is expected to have a new farm bill this year. From an international perspective, the levels of domestic support under the new bill must be consistent with US commitments under WTO agriculture agreements, i.e., the URAA and its predecessor. The US must have the flexibility to make necessary adjustments in farm programs to assure that WTO commitments are met. It is in the interest of the US to comply with its WTO obligations because the US expects other WTO Members to comply with their WTO commitments. Adherence to WTO obligations is the key for making sure that the benefits of trade agreements are fully realized.

## Concluding Comments

As never before, the linkage between US farm and trade policy and WTO international trade disciplines requires the US to have a global policy perspective.